

AGRICULTURAL WATER CONSERVATION CREDIT

This publication is designed to provide general information with respect to the income tax credit for the purchase and installation of an agricultural water conservation system. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

Q. Who is eligible for the agricultural water conservation credit?

A. A partnership or an individual that incurs expenses during the taxable year for the purchase and installation of an agricultural water conservation system.

NOTE: The corporate tax credit was repealed effective for taxable years beginning from and after December 31, 1999. Corporate taxpayers, including S corporations and corporate partners of a partnership, no longer qualify for the credit.

Q. What criteria must the agricultural water conservation system meet in order to qualify for the credit?

A. To qualify for the credit:

1. The agricultural water conservation system must be primarily designed to substantially conserve water on land that is used by the taxpayer or taxpayer's tenant to:
 - produce crops, fruits, or other agricultural products;
 - raise, harvest, or grow trees; or
 - sustain livestock.
2. The expense must be consistent with a water conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service (SCS).

Q. What is meant by crops and other agricultural products?

A. Crops are products of the soil and are annually grown, raised, and harvested for use as food. Examples of crops would be carrots and potatoes. An agricultural product is one which is a direct result of the cultivation of soil and is used as fiber. Examples of this would be cotton and hay.

Q. Can partners in a partnership or shareholders of an S corporation claim the credit?

A. Shareholders of an S corporation cannot claim the credit. An S corporation is not eligible for the tax credit for taxable years beginning from and after December 31, 1999, so it cannot pass the credit through to its shareholders. The credit may be passed through to partners that are individuals or partnerships. The partners may each claim only a pro rata share of the credit based on their ownership interests. The partnership cannot

pass the credit through to its corporate partners (including S corporations) for taxable years beginning from and after December 31, 1999.

Q. What is a water conservation plan?

A. A water conservation plan is a complete conservation plan which includes water conservation related components as part of a resource management system filed with the United States Department of Agriculture Soil Conservation Service.

Q. How does a plan get filed with the SCS?

A. The SCS assists people and organizations in the development of conservation plans. When these plans are completed, a copy of the plan is given to the person or organization and a copy remains on file at the SCS. The copy of the plan given to the taxpayer (for purposes of the tax credit) is the documentation needed to show that a plan is filed and in effect with the SCS.

Q. What is the amount of credit allowed?

A. The credit is equal to 75 percent of the qualifying expenses incurred in the purchase or installation of an agricultural water conservation system.

Q. What expenses qualify?

A. The expenses must be:

1. incurred during the taxable year in which they are claimed; and
2. consistent with a conservation plan that the taxpayer has filed and that is in effect with the United States Department of Agriculture Soil Conservation Service.

Q. What systems or system improvements will qualify for the credit?

A. The following systems or system improvements will qualify for the credit:

- System changed from unlined field ditch to concrete lined ditch.
- System changed from unlined field ditch to underground pipeline.
- System changed from unlined field ditch to gated pipes.
- System changed from sloping unlevelled surface field to slope on precise grade.
- System changed from sloping surface irrigated field to level basin.
- System changed from sloping field with surface irrigation to sprinkler.
- System changed from surface or sprinkler to trickle (above ground).
- System changed from surface or sprinkler to subsurface trickle (below ground).

AGRICULTURAL WATER CONSERVATION CREDIT

- Increasing the size of field ditch to provide larger head.
- System changed from unused runoff water to tailwater recovery system.
- Any system or system change other than these will be reviewed to determine if it qualifies based on the facts and information given on that specific system.

Q. How does a taxpayer apply for the credit?

A. A partnership or an individual must complete Form 312, *Agricultural Water Conservation System Credit*, and attach the completed form to the tax return of the partnership or individual.

Q. What if the credit available is greater than the taxes due for that year?

A. If the allowable credit exceeds taxes otherwise due or if there are no taxes due, an individual may carry the unused credit forward for not more than five succeeding taxable years.

Corporate taxpayers (including S corporations that claimed the tax credit) may carry forward unused credits from taxable years beginning before January 1, 2000, for five taxable years. The carryover cannot be claimed for taxable years beginning from and after December 31, 2005. Any remaining carryovers of unused credits from taxable years beginning before January 1, 2000, are lost after the taxable year 2005.

Q. Can a taxpayer claim the credit and also deduct expenses incurred in purchasing and installing an agricultural water conservation system?

A. No. The credit is in lieu of any deduction for such expenses allowed by the Internal Revenue Code in computing taxable income. Therefore, if such expenses have been deducted on the federal return, the taxpayer must add them back on the Arizona return if the taxpayer chooses to claim the credit.

Q. What type of records must a taxpayer keep to substantiate the credit claimed?

A. To substantiate the credit the taxpayer must keep:

1. all receipts and contracts showing the amounts paid for the purchase and installation of the agricultural water conservation system; and
2. a copy of the plan that has been developed and filed with the SCS.

FOR ADDITIONAL INFORMATION:

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